

**PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARD 23 REVENUE FROM NON-EXCHANGE TRANSACTIONS  
(PBE IPSAS 23)**

**Issued May 2013**

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989

## **PBE IPSAS 23 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

### **COPYRIGHT**

© External Reporting Board (“XRB”) 2013

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Public Sector Accounting Standards Board (“IPSASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: [enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz)

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at [www.ifac.org](http://www.ifac.org) or by writing to [permissions@ifac.org](mailto:permissions@ifac.org)

ISBN 978-1-927238-51-6

# PBE IPSAS 23 REVENUE FROM NON-EXCHANGE TRANSACTIONS

## CONTENTS

---

	Paragraph
Objective .....	1
Scope.....	2–6
Definitions.....	7–28
Non-Exchange Transactions .....	8–11
Revenue .....	12–13
Stipulations .....	14–16
Conditions on Transferred Assets.....	17–18
Restrictions on Transferred Assets .....	19
Substance over Form .....	20–25
Taxes .....	26–28
Analysis of the Initial Inflow of Resources from Non-Exchange Transactions .....	29
Recognition of Assets .....	30–43
Control of an Asset .....	32–33
Past Event .....	34
Probable Inflow of Resources.....	35
Contingent Assets .....	36
Contributions from Owners .....	37–38
Exchange and Non-Exchange Components of a Transaction .....	39–41
Measurement of Assets on Initial Recognition.....	42–43
Recognition of Revenue from Non-Exchange Transactions .....	44–47
Measurement of Revenue from Non-Exchange Transactions .....	48–49
Present Obligations Recognised as Liabilities .....	50–58
Present Obligation .....	51–54
Conditions on a Transferred Asset .....	55–56
Measurement of Liabilities on Initial Recognition .....	57–58
Taxes.....	59–75
The Taxable Event.....	65
Advance Receipts of Taxes .....	66
Measurement of Assets Arising from Taxation Transactions.....	67–70
Expenses Paid Through the Tax System and Tax Expenditures.....	71–75

Transfers .....	76–105B
Measurement of Transferred Assets .....	83
Debt Forgiveness and Assumption of Liabilities.....	84–87
Fines .....	88–89
Bequests.....	90–92
Gifts and Donations, including Goods In-kind.....	93–97
Services In-kind.....	98–103
Pledges.....	104
Advance Receipts of Transfers.....	105
Concessionary Loans.....	105A–105B
Disclosures.....	106–115
Transitional Provisions .....	116–123
Effective Date .....	124–125.1
Basis for Conclusions	
Implementation Guidance	
Comparison with IPSAS 23	
History of Amendments	

---

Public Benefit Entity International Public Sector Accounting Standard 23 *Revenue from Non-Exchange Transactions* is set out in paragraphs 1–125.1. All the paragraphs have equal authority. PBE IPSAS 23 should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. This Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

## Scope

2. **An entity that prepares and presents financial statements shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.**
3. [Not used.]
- 3.1 **This Standard applies to public sector public benefit entities in Tier 1 and public sector public benefit entities that are eligible for and elect to apply Tier 2 PBE Standards.**
- 3.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (\*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**
4. [Not used.]
5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in PBE IPSAS 9 *Revenue from Exchange Transactions*. While revenues received by public benefit entities arise from both exchange and non-exchange transactions, the majority of revenues of these entities is typically derived from non-exchange transactions, such as:
  - (a) Taxes; and
  - (b) Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, fundraising proceeds and goods and services in-kind, and the off-market portion of concessionary loans received.
6. [Not used.]

## Definitions

7. **The following terms are used in this Standard with the meanings specified:**

**Conditions on transferred assets** are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

**Control of an asset** arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

**Expenses paid through the tax system** are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

**Fines** are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

**Restrictions on transferred assets** are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

**Stipulations on transferred assets** are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

**Tax expenditures** are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The **taxable event** is the event that the government, legislature, or other authority has determined will be subject to taxation.

**Taxes** are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

**Transfers** are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Transfers include grants, forgiveness of debts, fines, bequests, gifts, donations, fundraising proceeds, volunteer labour, goods and services in-kind.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

### Non-Exchange Transactions

8. In some transactions, it is clear that there is an exchange of approximately equal value. These are exchange transactions and are addressed in other PBE Standards.
9. In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.
10. There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately. For example, an entity receives CU6 million funding from a multi-lateral development agency. The agreement stipulates that the entity must repay CU5 million of the funding received over a period of 10 years, at 5% interest when the market rate for a similar loan is 11%. The entity has effectively received a CU1 million grant (CU6 million received less CU5 million to be repaid) and entered into CU5 million concessionary loan which attracts interest at 6% below the market interest rate for a similar loan. The CU1 million grant received, as well as the off-market portion of the interest payments in terms of the agreement, are non-exchange transactions. The contractual capital and interest payments over the period of the loan are exchange transactions.
11. There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidised price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgement is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

### Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of a third party will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.
13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognised separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognised as an asset, in accordance with PBE IPSAS 17 *Property, Plant and Equipment*.

**Stipulations**

14. Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations, as defined in this Standard. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.
15. Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).
16. Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* establishes requirements for the recognition and measurement of constructive obligations.

**Conditions on Transferred Assets**

17. Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.
18. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity will still recognise the gross amounts in its financial statements, that is, the entity will recognise a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

**Restrictions on Transferred Assets**

19. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfil the restriction or face a civil or criminal penalty for defying the court, other tribunal, or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

**Substance over Form**

20. In determining whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

21. In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.
22. The definition of a condition imposes on the recipient entity a performance obligation – that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.
23. To satisfy the criteria for recognition as a liability, it is necessary that an outflow of resources will be probable, and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.
24. In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a central government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return obligation does not arise until such time as it is expected that the stipulation will be breached, and a liability is not recognised until the recognition criteria have been satisfied.
25. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with PBE IPSAS 9.

## **Taxes**

26. Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 7 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.
27. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the

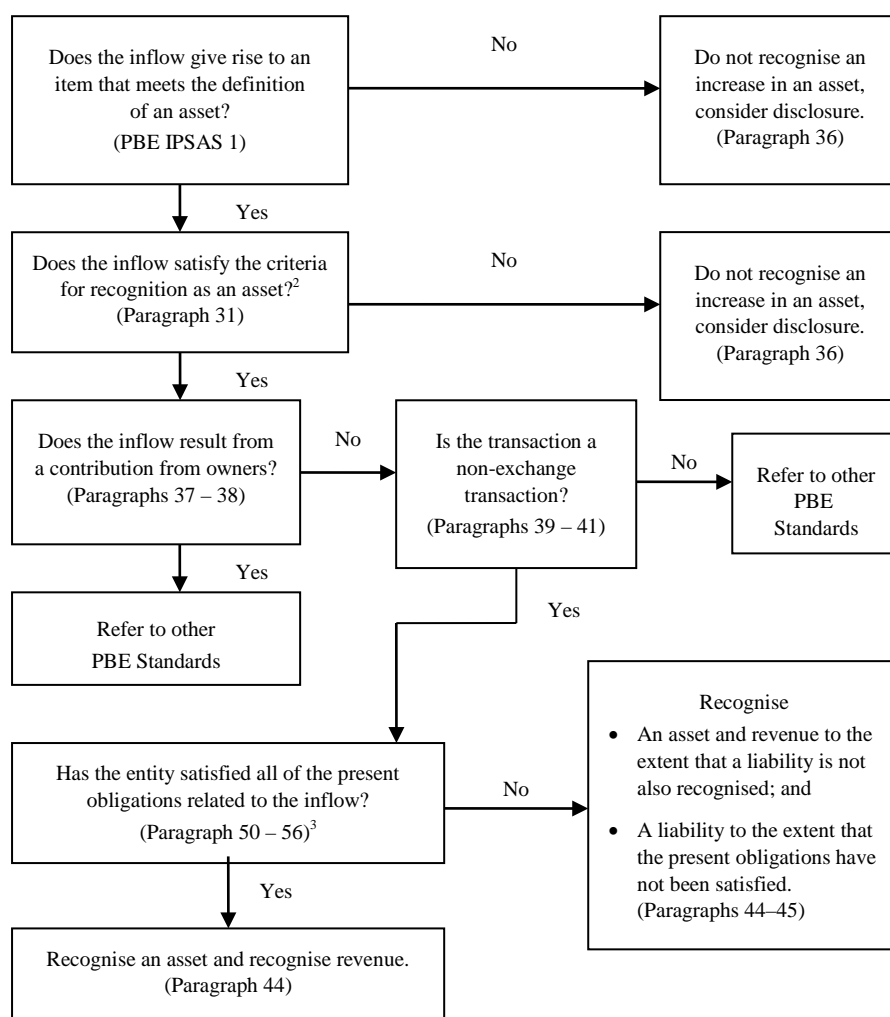


amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

28. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

### **Analysis of the Initial Inflow of Resources from Non-Exchange Transactions**

29. An entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognise as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analysed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyse non-exchange transactions to determine which elements of general purpose financial statements will be recognised as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises. This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 30–115.

**Illustration of the Analysis of Initial Inflows of Resources<sup>1</sup>**

1. The flowchart is illustrative only, it does not take the place of this Standard. It is provided as an aid to interpreting this Standard.
2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability.
3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognising a liability, are considered.

## Recognition of Assets

30. Assets are defined in PBE IPSAS 1 *Presentation of Financial Statements* as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.
31. **An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when, and only when:**
- (a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and**
  - (b) **The fair value of the asset can be measured reliably.**

## Control of an Asset

32. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example, financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 98, entities may, but are not required, to recognise services in-kind such as services provided free of charge by volunteers.
33. An announcement of an intention to transfer resources to an entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement. Similarly, an entity would not necessarily recognise an inflow of resources at the time of receiving a pledge. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding, because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

## Past Event

34. Entities normally obtain assets from governments, other entities including grant-makers and taxpayers, as a transfer, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

## Probable Inflow of Resources

35. An inflow of resources is probable when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where (a) a government agrees to transfer funds to an entity (reporting entity), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

## Contingent Assets

36. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see PBE IPSAS 19).

## Contributions from Owners

37. Contributions from owners are defined in PBE IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining

whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 38 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in PBE IPSAS 28 *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.

38. A contribution from owners may be evidenced by, for example:
- (a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;
  - (b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or
  - (c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

#### **Exchange and Non-Exchange Components of a Transaction**

39. Paragraphs 40 and 41 below address circumstances in which an entity gains control of resources embodying future economic benefits or service potential other than by contributions from owners.
40. Paragraph 7 defines exchange transactions and non-exchange transactions, and paragraph 10 notes that a transaction may include two components, an exchange component and a non-exchange component.
41. Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognises the exchange component according to the principles and requirements of other PBE Standards. The non-exchange component is recognised according to the principles and requirements of this Standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgement is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

#### **Measurement of Assets on Initial Recognition**

42. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.**
43. Consistent with PBE IPSAS 12 *Inventories*, PBE IPSAS 16 *Investment Property* and PBE IPSAS 17, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.

#### **Recognition of Revenue from Non-Exchange Transactions**

44. **An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.**
45. **As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.**
46. When an entity recognises an increase in net assets as a result of a non-exchange transaction, it recognises revenue. If it has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognises revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognised as a liability or revenue.

47. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognised as goods or services are provided.

### Measurement of Revenue from Non-Exchange Transactions

48. **Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognised by the entity.**
49. When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 42, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph 57, and the amount of the increase in net assets, if any, will be recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

### Present Obligations Recognised as Liabilities

50. **A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognised as a liability when, and only when:**
- (a) **It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and**
  - (b) **A reliable estimate can be made of the amount of the obligation.**

### Present Obligation

51. A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.
52. In many instances, taxes are levied and assets are transferred to entities in non-exchange transactions pursuant to laws, regulation, or other binding arrangements that impose stipulations that they be used for particular purposes. For example:
- (a) Taxes, the use of which is limited by laws or regulations to specified purposes;
  - (b) Transfers, established by a binding arrangement that includes conditions:
    - (i) From central governments to local governments;
    - (ii) [Not used.];
    - (iii) From governments to other entities;
    - (iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
    - (v) From donor agencies to governments or other entities.
53. In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognised until the taxable event occurs.
54. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

### Conditions on a Transferred Asset

55. **Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised in accordance with paragraph 50.**
56. Stipulations are defined in paragraph 7. Paragraphs 14–25 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyses any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

**Measurement of Liabilities on Initial Recognition**

57. **The amount recognised as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**
58. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in PBE IPSAS 19.

**Taxes**

59. **An entity shall recognise an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.**
60. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
61. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the central government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a central government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the central government recognises assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognise assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income tax for the state government and several city governments, it does not recognise revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognise assets and revenue in respect of the taxes.
62. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.
63. Taxes satisfy the definition of non-exchange transaction because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. While the taxpayer may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes.
64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognise a liability in respect of any conditions relating to assets recognised as a consequence of specific purpose tax levies, it does not recognise revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions.

**The Taxable Event**

65. Similar types of taxes are levied in many jurisdictions. The reporting entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:
- (a) Income tax is the earning of assessable income during the taxation period by the taxpayer;
  - (b) [Not used.];
  - (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

- (d) Customs duty is the movement of dutiable goods or services across the customs boundary; and
- (e) [Not used.]
- (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

### **Advance Receipts of Taxes**

66. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognised until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognised.

### **Measurement of Assets Arising from Taxation Transactions**

67. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.
68. Where there is a separation between the timing of the taxable event and collection of taxes, public sector entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other factors such as:
- (a) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;
  - (b) Taxpayers failing to file returns on a timely basis;
  - (c) Valuing nonmonetary assets for tax assessment purposes;
  - (d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;
  - (e) The potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received;
  - (f) The tax law permitting taxpayers to defer payment of some taxes; and
  - (g) A variety of circumstances particular to individual taxes and jurisdictions.
69. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
70. In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognised in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset.

**Expenses Paid Through the Tax System and Tax Expenditures**

71. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**
72. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and should be recognised separately in the statement of comprehensive revenue and expense. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.
73. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**
74. In most jurisdictions, governments use the tax system to encourage certain financial behaviour and discourage other behaviour. For example, in some jurisdictions, homeowners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.
75. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. PBE IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

**Transfers**

76. **Subject to paragraph 98, an entity shall recognise an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**
77. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, fundraising proceeds, and goods and services in-kind (including volunteer services). All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange, and are not taxes as defined in this Standard.
78. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
79. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognised. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.
80. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that



the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.

81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under PBE IPSAS 9.
82. An entity analyses all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

### **Measurement of Transferred Assets**

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with PBE Standards. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of PBE IPSAS 12, PBE IPSAS 16, and PBE IPSAS 17. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

### **Debt Forgiveness and Assumption of Liabilities**

84. Lenders will sometimes waive their right to collect a debt owed by an entity, effectively cancelling the debt. For example, an entity such as a central government may cancel a loan owed by a local government. In such circumstances, the recipient entity recognises an increase in net assets because a liability it previously recognised is extinguished.
85. Entities recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.
86. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 37–38.
87. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

### **Fines**

88. Fines are economic benefits or service potential received or receivable by an entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognised as a fine.
89. Fines normally require an entity to transfer a fixed amount of cash to the entity levying the fine, and do not impose on the recipient entity any obligations which may be recognised as a liability. As such, fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 31. As noted in paragraph 12, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

### **Bequests**

90. A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

91. Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.
92. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 97. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable and discounting may be required if receipt of the bequest is delayed because of a life interest.

### **Gifts and Donations, including Goods In-kind**

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.
94. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. For example, a historic building may be transferred to a trust with a stipulation that it be maintained in perpetuity. External assistance provided by multilateral or bilateral development organisations often includes a component of goods in-kind.
95. Gifts and donations (other than services in-kind) are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.
96. Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.
97. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognised and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.

### **Services In-kind**

98. **An entity may, but is not required to, recognise services in-kind as revenue and as an asset.**
99. Services in-kind are services provided by individuals to entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, a school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognise an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount recognised in respect of services in-kind is included in the cost of the asset being constructed.

100. Entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:
- (a) Technical assistance from other governments or international organisations;
  - (b) Persons convicted of offenses may be required to perform community service for an entity;
  - (c) Hospitals may receive the services of volunteers;
  - (d) Schools may receive voluntary services from parents as teachers' aides or as board members; and
  - (e) A fire station may receive the services of volunteer fire fighters.
101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.
102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some entities, the services provided by volunteers are not material in amount, but may be material by nature.
103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

### **Pledges**

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset, because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognised as a gift or donation, in accordance with paragraphs 93–97 above. Pledges may warrant disclosure as contingent assets under the requirements of PBE IPSAS 19.

### **Advance Receipts of Transfers**

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognised until the event that makes the transfer arrangement binding occurs, and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognised.

### **Concessionary Loans**

- 105A. Concessionary loans are loans received by an entity at below market terms. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the

loan on initial recognition (see PBE IPSAS 29) is non-exchange revenue that should be accounted for in accordance with this Standard.

- 105B. Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognises the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognised as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognised.

## Disclosures

106. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **The amount of revenue from non-exchange transactions recognised during the period by major classes showing separately:**
    - (i) **Taxes, showing separately major classes of taxes; and**
    - (ii) **Transfers, showing separately major classes of transfer revenue.**
  - (b) **The amount of receivables recognised in respect of non-exchange revenue;**
  - (c) **The amount of liabilities recognised in respect of transferred assets subject to conditions;**
  - (cA) **The amount of liabilities recognised in respect of concessionary loans that are subject to conditions on transferred assets;**
  - (d) **The amount of assets recognised that are subject to restrictions and the nature of those restrictions;**
  - (e) **The existence and amounts of any advance receipts in respect of non-exchange transactions; and**
  - (f) **The amount of any liabilities forgiven.**
107. **An entity shall disclose in the notes to the general purpose financial statements:**
- (a) **The accounting policies adopted for the recognition of revenue from non-exchange transactions;**
  - (b) **For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;**
  - (c) **For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and**
  - (d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.**
- \*108. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
109. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in PBE IPSAS 1, which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.
110. Disclosure of the major classes of revenue assists users to make informed judgements about the entity's exposure to particular revenue streams.
111. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognised in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgements about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 106(c).

112. Paragraph 106(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgements about the entity's future revenue and net asset position.
113. As noted in paragraph 68, in many cases an entity will be able to reliably measure assets and revenue arising from taxation transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgements about the entity's future revenue and net asset position.
114. Paragraph 107(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgements about the entity's future revenue and net asset position.
115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgements about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

### **Transitional Provisions**

116–123. [Not used.]

### **Effective Date**

124–125. [Not used.]

- 125.1 **A public sector public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 July 2014. Earlier application is not permitted.**

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 23.*

- BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 23 *Revenue from Non-Exchange Transactions* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 23 are generally appropriate for application by public benefit entities.
- BC2. The NZASB noted that many constituents had requested that PBE IPSAS 23 be supplemented with further Implementation Guidance as the standard is new to New Zealand. IPSAS 23 was drafted specifically for the public sector and is an integral part of the IPSAS suite of standards, with specific links to other standards in the suite, as well as providing detailed guidance on this topic. The NZASB has decided to publish PBE IPSAS 23 as it stands as part of the transition suite of PBE Standards.
- BC3. The NZASB acknowledges specific proposals for amendments to PBE IPSAS 23 made by constituents, and comments on those proposals are detailed below.
- (a) “More guidance is required to clearly distinguish between exchange revenue and non-exchange revenue.” The NZASB acknowledges that the distinction may be difficult for those non-exchange transactions that have characteristics similar to those of exchange transactions. The NZASB has found that very little guidance exists at present. The NZASB noted that it would not be possible to develop sufficient guidance prior to the publication of the transition suite of PBE Standards. Until further research is performed, which may lead to the development of supplementary guidance, the NZASB acknowledged that professional judgement will be required in selecting accounting policies that will result in relevant and reliable presentation and disclosure of the transaction.
- (b) “More guidance is required to clarify acceptable disclosure options to differentiate between restricted and unrestricted revenue funds.” The NZASB considered that there is nothing that would prevent entities from following a columnar approach in the statement of comprehensive revenue and expense or in the statement of financial position to distinguish between restricted and unrestricted funds.
- (c) “PBE IPSAS 23 could be modified having regard to the IASB’s Revenue Project and the current AASB Project considering how the IASB’s Revenue Project can be applied by not-for-profit entities.” The NZASB noted that, at the time of developing the transitional suite of PBE Standards, the IPSASB’s Conceptual Framework Project was seeking feedback on a proposal to recognise, as elements, deferred inflows and deferred outflows. The NZASB considered that modifying the transitional PBE IPSAS 23 for an IASB project or an AASB project looking at modifying an IASB project would pre-empt any changes that the IPSASB Conceptual Framework project might lead to. Therefore the NZASB considered that it was more appropriate to wait for the completion of the IPSASB Conceptual Framework Project.

## Uncollectible Revenue

- BC4. Some types of non-exchange revenue such as infringement fines have high levels of uncollectible debt. The NZASB noted that common practice prior to the adoption of PBE Standards was to recognise the gross amount of such items as revenue receivable and any uncollectible amount as an impairment. The NZASB noted that the amount of uncollectible debts (including amounts considered to be uncollectible at initial recognition) has information value and considered whether displaying both gross and net amounts would be consistent with the requirements of PBE IPSAS 23. The NZASB concluded that PBE IPSAS 23 does not preclude gross revenue and the likely uncollectable amounts being separately displayed.

## Concessionary Loans

- BC5. IPSAS 23 contains guidance on concessionary loans and the interaction between the treatment of these loans and other standards, including those dealing with financial instruments.
- BC6. The NZASB noted the IPSASB’s explanation of how IPSAS 23 interacts with other standards and agreed that this discussion was important for an understanding of PBE IPSAS 23. The following extracts from the IPSASB’s Basis for Conclusions on IPSAS 23 provide background to this Standard.

**Measurement of Assets**

BC16. This Standard requires that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully represents the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

**Advance Receipts**

BC20. This Standard requires an entity that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognise an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity may need to return part or all of the resources. Some are of the view that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

**Services In-kind**

BC25. This Standard permits, but does not require, recognition of services in kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the reporting entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

## Implementation Guidance

*This guidance accompanies, but is not part of, PBE IPSAS 23.*

### Measurement, Recognition, and Disclosure of Revenue from Non-Exchange Transactions

#### *Income Tax (paragraph 65)*

- IG1. A central government (reporting entity) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year), and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.
- IG2. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognises assets and revenue in respect of personal income tax on the income earned during the reporting period, to the extent that it can reliably measure it. Assets and revenue will also be recognised in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

#### *Measurement of Taxation Revenue (paragraphs 67–70)*

- IG3. A central government (reporting entity) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy-year period. The tax year and the reporting period are January 1 to December 31. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.
- IG4. Income tax revenue should be recognised in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax instalments deducted by employers, sales tax collections (if it levies such a tax), and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.
- IG5. The model enables the reporting entity to reliably measure the assets and revenue accruing to it during the reporting period, which are then recognised and disclosed in the general purpose financial statements. The notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognised prospectively in accordance with PBE IPSAS 3.

IG6–IG7. [Not used.]

#### *Goods and Services Tax (paragraph 65)*

- IG8. A central government (reporting entity) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are required to electronically submit GST returns to the tax department on a weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.
- IG9. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognises assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take



place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable.

*Customs Duty (paragraph 65)*

IG10. A central government (reporting entity) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IG11. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognises assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

IG12–IG13. [Not used.]

*Property Tax (paragraph 65)*

IG14. A local government (reporting entity) levies a tax of one percent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IG15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the passing of the date on which the taxes are levied, July 31. The government recognises assets and revenue in the general purpose financial statements of the reporting period in which that date occurs.

*Advance Receipts of Income Tax (paragraph 66)*

IG16. Government A (reporting entity) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

IG17. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The reporting entity recognises an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

*Grant for General Purposes (paragraphs 14–16, 76)*

IG18. The central government (transferor) makes a grant of CU10 million to an entity in a socioeconomically deprived area. The entity is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant.

IG19. There are no stipulations attached to these grants, and no performance obligation, so the transfers are recognised as assets and revenue in the general purpose financial statements of the reporting period in which they are received or receivable by the entity.

*Transfer with Stipulations that do not Satisfy the Definition of a Condition (paragraphs 20–25)*

IG20. A central government makes a cash transfer of CU50 million to a social housing entity, specifying that it:

- (a) Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or
- (b) Uses the cash transfer in other ways to support its social housing objectives.

If neither of these stipulations is satisfied, the recipient entity must return the cash to the central government.

IG21. The social housing entity recognises an increase in an asset (cash) and revenue in the amount of CU50 million. The stipulations in the transfer agreement are stated so broadly as to not impose on the recipient a performance obligation – the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

*Transfer to a University with Restrictions (paragraphs 19 and 76)*

IG22. The central government (transferor) transfers 200 hectares of land in a major city to a university (reporting entity) for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

IG23. The university recognises the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognised at its fair value in accordance with PBE IPSAS 17. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognises revenue in respect of the land in the statement of comprehensive revenue and expense of the reporting period in which the land is recognised as an asset.

*Grant to Another Level of Government with Conditions (paragraphs 17–18)*

IG24. The central government (transferor) grants CU10 million to a local government (reporting entity) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernisation, 40 percent for new railroad or tramway systems, and 20 percent for rolling stock purchases and improvements. Under the terms of the grant, the money can only be used as stipulated, and the provincial government is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the central government.

IG25. The local government recognises the grant money as an asset. The provincial government also recognises a liability in respect of the condition attached to the grant. As the province satisfies the condition, that is, as it makes authorised expenditures, it reduces the liability and recognises revenue in the statement of comprehensive revenue and expense of the reporting period in which the liability is discharged.

*Research Grant (in Substance Exchange Transaction) (paragraph 8)*

IG26. A large corporation that makes cleaning products (transferor) gives money to a university (reporting entity) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results are to be shared with it before being announced to the public, and that it has the right to apply for a patent on the compound.

IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. PBE IPSAS 9 and PBE IPSAS 31 *Intangible Assets* apply to this transaction.

*Debt Forgiveness (paragraphs 84–87)*

IG28. The central government (transferor) lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the central government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The central government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IG29. When it receives the letter and documentation from the central government, which communicates this decision, the local government derecognises the liability for the loan and recognises revenue in the statement of comprehensive revenue and expense of the reporting period in which the liability is derecognised.

*Purchase of Property with Exchange and Non-Exchange Components (paragraphs 8–11, 39–41)*

IG30. A school (reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a local government. The reporting entity concludes that the non-exchange transaction comprises two components, an exchange component and a non-exchange component. One component involves the purchase of a half share in the land for CU50,000, the other component is a non-exchange transaction that transfers the remaining half share of the land to the school.

IG31. In its general purpose financial statements for the reporting period in which the transaction takes place, the school recognises the land at CU100,000, (a cost of CU50,000 and a transfer of CU50,000), a reduction in its asset cash of CU50,000, and revenue from a non-exchange transaction of CU50,000 (the fair value of the increase in net assets recognised).

*Proposed Bequest (paragraphs 90–92)*

IG32. A 25-year old recent graduate (transferor) of a university names the university (reporting entity) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.

IG33. The university does not recognise any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transferor), which has not occurred.

*Pledge—Television Appeal for Hospital (paragraph 104)*

IG34. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a hospital (reporting entity). The annual reporting date of the hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

IG35. The hospital does not recognise any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge, because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources; therefore it cannot recognise the asset or the related revenue until the donation is binding on the donor.

*Fine (paragraphs 88–89)*

IG36. A major corporation is found guilty of polluting a river. As a penalty, it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine. The company has announced that it will not appeal the case.

IG37. The government (reporting entity) recognises a receivable and revenue of CU50 million in the general purpose financial statements of the reporting period in which the fine is imposed.

*External Assistance Recognised (paragraphs 76–82)*

IG38. Entity A (reporting entity) enters into an external assistance agreement with Entity B, which provides Entity A with development assistance grants to support Entity A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by Entity A. Entity A measures the fair value of the development assistance at CU5 million.

IG39. When the external assistance agreement becomes binding, Entity A recognises an asset (a receivable) for the amount of CU5 million, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There are no conditions attached to this agreement that require the entity to recognise a liability.

*Revenue of Aid Agency (paragraphs 76, 93–97)*

IG40. Green-Aid Agency relies on funding from a group of governments. The governments have signed a formal agreement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the expenses of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time.

IG41. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IG42. In 20X7, Green-Aid Agency recognises an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognised.

IG43. In 20X8, Green Aid Agency recognises CU53 million of revenue from transfers. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

*Goods In-kind Recognised as Revenue (paragraphs 42, 93–97)*

IG44. Transferor Government A has an arrangement with the reporting entity, Aid Agency Inc., whereby Government A provides rice to meet its promised financial commitments to Aid Agency Inc. Based on the variability in Government A's past performance in meeting its commitments, Aid Agency Inc. has adopted an accounting policy of not recognising the asset and revenue until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.

IG45. On January 12, 20X5, the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international commodities market; CU340,000 in recipient Nation B; and CU400,000 in recipient Nation C.

IG46. The fair value of the rice at the time of the donation must be determined to measure the revenue that Aid Agency Inc. recognises. The financial agreement between the donor and the aid agency, which allows the rice to be valued at CU300 per metric ton, depends on a private agreement between the two parties, and does not necessarily reflect the fair value of the rice. Both Aid Agency Inc. and Donor Government A have the option of purchasing the rice on the world market at the lower price of CU250,000. The market prices for individual countries appear open to fluctuation – either as a result of trade barriers or, in the case of recipient countries, temporary distortions due to severe food shortages, and may not reflect a transfer between a knowledgeable willing buyer and a knowledgeable willing seller in an orderly market. Therefore, the world market price of CU250,000 is the most reliable and relevant reflection of fair value for the donated rice. Aid Agency Inc. recognises an increase in an asset (rice inventory) and revenue of CU250,000 in its general purpose financial statements for the year in which the transfer is received.

*Disclosure of Services In-kind not Recognised (paragraphs 98–102, 108)*

- IG47. A hospital's (reporting entity) accounting policies are to recognise voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organised program. The principal aim of the program is to expose volunteers to the hospital environment, and to promote nursing as a career. Volunteers must be at least sixteen years of age, and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The hospital does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.
- IG48. The hospital analyses the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognise the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

*Contribution from Owners (paragraphs 37–38)*

- IG49. In 20X0 the neighbouring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (reporting entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognises as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminium smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.
- IG50. When the amendment to the charter becomes binding, TCEGS will recognise an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

*Grant Agreement Term not Requiring Recognition of a Liability (paragraphs 20–25)*

- IG51. National Park Department (reporting entity) of Country A receives a grant of CU500,000 from the bilateral aid agency of Country B. The grant agreement stipulates that the grant is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the grant agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a grant of this type from the same transferor. In prior years, the grant has not been used as stipulated, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.
- IG52. National Park Department analyses the transaction and concludes that, although the terms of the grant agreement are enforceable, because the bilateral aid agency has not enforced the condition in the past, and given no indication that it ever would, the terms have the form of a stipulation and condition, but not the substance. National Park Department recognises an increase in an asset (cash in bank) and grant revenue; it does not recognise a liability.

*Disclosures Made in the Financial Statements of Government A (paragraphs 106–108)*

IG53. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with PBE Standards for the first time. It makes the following disclosures in its financial statements:

**Statement of Comprehensive Revenue and Expense  
(Extract)**

	20X2 (CU',000)	20X1 (CU',000)
<b>Revenue from Non-Exchange Transactions</b>		
<b>Taxation Revenue</b>		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
<b>Transfer Revenue</b>		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X

**Statement of Financial Position  
(Extract)**

<b>Current Assets</b>		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 7)	X	X
<b>Non-current Assets</b>		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
<b>Current Liabilities</b>		
Liabilities recognised under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

## Notes to the Financial Statements

### *Accounting Policies*

#### **Recognition of Revenue from Non-Exchange Transactions**

1. Assets and revenue arising from taxation transactions are recognised in accordance with the requirements of PBE IPSAS 23 *Revenue from Non-Exchange Transactions*.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognised in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognised in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognised in the period in which the transfer arrangement becomes binding, except for some services in-kind. The government recognises only those services in-kind that are received as part of an organised program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognised.
3. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the Government recognises a liability until the condition is fulfilled.

### *Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions*

#### **Taxes**

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accruals basis. This model uses statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20X4. The Government does not recognise any amount in respect of income taxes receivable.
5. Assets and revenue accruing from goods and services tax are initially measured at the fair value of assets accruing to the government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.  
  
Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.
6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the fair value as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

### *Transfer Revenue*

7. Assets and revenue recognised as a consequence of a transfer are measured at the fair value of the assets recognised as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Nonmonetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognised when a binding transfer arrangement is in place, but cash or other assets have not been received.



*Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs*

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of PBE IPSAS 23 *Revenue from Non-Exchange Transactions* to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it will be able to reliably measure income tax on an accruals basis using the model for the reporting period ending December 31, 20X4.
9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognises estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

*Liabilities Recognised in Respect of Transfers*

10. At December 31, 20X2, the Government recognised a liability of CUXX,000 related to a transfer to it conditional upon it building a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

*Assets Subject to Restrictions*

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the restriction that it be used for public health purposes and not be sold for 50 years. The land was acquired by the transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.
12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the restriction that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

*Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received*

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognise these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.
14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

*Services In-kind*

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organised volunteer program. These services in-kind are recognised as revenue and expenses in the statement of comprehensive revenue and expense at their fair value, as determined by reference to the medical profession's published schedule of fees.
16. Hospitals, schools, and art galleries controlled by the government also received support from volunteers as part of organised programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The government does not recognise these services in the statements of financial position or comprehensive revenue and expense.

*Concessionary Loans (paragraphs 105A to 105B)*

IG54. An entity receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:
  - Year 1: no capital to be repaid
  - Year 2: 10% of the capital to be repaid
  - Year 3: 20% of the capital to be repaid
  - Year 4: 30% of the capital to be repaid
  - Year 5: 40% of the capital to be repaid
- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).
- The entity built the following schools over the period of the loan:
  - Year 1: 1 school completed
  - Year 2: 3 schools completed
  - Year 3: 5 schools completed
  - Year 4: 10 schools completed

**Analysis**

The entity has effectively received a grant of CU1 million and a loan of CU5 million (Note: An entity would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional grant of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The grant of CU1 million + CU784,550 is accounted for in accordance with this Standard and, the loan with its related contractual interest and capital payments, in accordance with PBE IPSAS 29.

1. On initial recognition, the entity will recognise the following:

Dr	Bank	CU6,000,000	
	Cr	Loan	CU4,215,450
	Cr	Liability	CU1,784,550

2. Year 1: the entity will recognise the following:

Dr	Liability	CU178,455	
	Cr	Non-exchange revenue	CU178,455

(1/10 of the schools built X CU1,784,550)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to PBE IPSAS 29).

REVENUE FROM NON-EXCHANGE TRANSACTIONS

3. Year 2: the entity will recognise the following (assuming that the entity subsequently measures the concessionary loan at amortised cost):

Dr	Liability	CU356,910	
Cr	Non-exchange revenue		CU356,910

(3/10 schools built X CU1,784,500 – CU178,455 already recognised)

4. Year 3: the entity will recognise the following:

Dr	Liability	CU356,910	
Cr	Non-exchange revenue		CU356,910

(5/10 schools built X CU1,784,550 – CU535,365 already recognised)

5. Year 4: the entity will recognise the following:

Dr	Liability	CU892,275	
Cr	Non-exchange revenue		CU892,275

(All schools built, CU1,784,550 – CU892,275)

If the concessionary loan was granted with no conditions, the entity would recognise the following on initial recognition:

Dr	Bank	CU6,000,000	
Cr	Loan		CU4,215,450
Cr	Non-exchange revenue		CU1,784,550

### Comparison with IPSAS 23

PBE IPSAS 23 *Revenue from Non-Exchange Transactions* is drawn from IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. PBE Standards require the presentation of a statement of surplus or deficit and other comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 23 and IPSAS 23.

### History of Amendments

PBE IPSAS 23 *Revenue from Non-Exchange Transactions* was issued in May 2013.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 23. The table is based on amendments approved as at 31 May 2013.

Pronouncements	Date approved	Early operative date	Effective date (annual financial statements ... on or after ...)
PBE IPSAS 23 <i>Revenue from Non-Exchange Transactions</i>	May 2013	Early application not permitted	1 July 2014